



THE CITY OF SAN DIEGO
MANAGER'S REPORT

DATE ISSUED: May 14, 2003 REPORT NO. 03-100

ATTENTION: Honorable Mayor and City Council
Docket of May 20, 2003

SUBJECT: Development Services Department Fee Proposal

REFERENCE: Committee on Land Use and Housing Docket of March 19, 2003, City
Manager's Report No. 03-040

SUMMARY

Issue - Should the City Council revise development review user fees in order to improve all mandatory regulatory review and inspection services; to meet service level standards; to provide for full Department cost recoverability; and to offer the limited enhanced and voluntary optional services as described below?

1. Base Service Fees - Revise development review fees as shown on Attachment No. 1 to consolidate fee types and eliminate 57 unnecessary fee categories; to increase initial and subsequent deposit accounts to reflect actual costs; and to revise fees based on the results of a fee study conducted by fee consultant (Maximus) and include the following costs:
 - a. IT Improvements - Include the information technology costs in the proposed fees to update automated zoning and land use information systems, maintain project review records, pilot automation for field inspection services, and to provide public access to key project data via the internet. These costs would improve Department efficiency and enhance responsiveness to customers.

- b. Building Space - Direct the City Manager to present options to the City Council this summer for lease of office space, including an option to lease downtown space in the City's Concourse.
 - c. Base Service Position Costs - Approve the addition of 37 Full Time Equivalents (FTE) positions to be added in the Department's Fiscal Year 2004 budget to meet established review and inspection service levels (Attachment No. 6) and reduce staff overtime.
 - d. Future Fee Adjustments to Match Labor Costs - Include future fee increases of 6.2% on May 2, 2004 and 4.9% on May 2, 2005 to match the personnel expense increases that will result from the approved Fiscal Year 2003 labor contract.
- 2. Enhanced Services - Long Term Permit Monitoring - Approve 14 FTE positions to monitor project compliance with storm water, environmental mitigation, slope revegetation, and other permit conditions on an ongoing basis after projects have been completed and final inspection has occurred. These positions will be added to the Department's Fiscal Year 2004 budget.
- 3. Optional Services - Include the fees as shown on Attachment No.1 and approve the addition of 27 FTE positions to the Department's Fiscal Year 2004 budget. This allows the Department to offer the following choices for service on a limited basis:
 - a. Express Services – Provides for project management, express plan review, and next day inspection services that can be voluntarily selected and paid for by development review customers. (11.5 FTE positions)
 - b. Affordable/Infill Housing and Energy Efficiency Expedite Program – Provides for project management and express review services that can be voluntarily selected and paid for by customers developing affordable/infill housing and energy efficient buildings (15.5 FTE positions).

The positions in Item #3 will be filled only as customer demand for these services supports the increased staffing.

Manager's Recommendation - Approve the revised fees and reimbursable staff positions. Approve LU&H recommendation Nos. 2 and 3 described below. Direct the City Manager to develop a proposal for the Enterprise Fund office space requirements including potentially leasing building space from the General Fund for City Council consideration this summer.

Committee on Land Use and Housing Recommendation - On March 19, 2003 the Committee on Land Use and Housing (LU&H) voted 3-1 (Councilmember Frye not present) to:

1. Recommend that City Council approve the proposed fees as outlined in the City Manager's report, without approving plans for the proposed building until additional uses for the money are considered including using funds to keep community service centers open;
2. Restructure the Department to provide accountability and enhanced services to small business and individual homeowners; and
3. Work with the Technical Advisory Committee (TAC), Small Business Advisory Board (SBAB), the Building Industry Association (BIA) and other interested stakeholder groups to develop specific performance standards to help improve accountability and customer service.

Community Planners Committee (CPC) Recommendation - On February 25, 2003 the CPC unanimously (21-0) approved a motion to support the Development Services Department's recommendation to restructure their fee schedule.

LU&H Technical Advisory Committee (TAC) Recommendation - On March 5, 2003, the TAC unanimously recommended approval of the fee schedule provided that City Council find another funding source for the affordable/infill program and that the Department develop and regularly monitor performance measures.

Other Recommendations -

Organizations Recommending Approval with Conditions of Support:

1. Greater San Diego Chamber of Commerce;
2. Building Industry Association;
3. American Institute of Architects;
4. American Society of Landscape Architects;
5. San Diego Fire Protection Association;
6. California Sign Association; and
7. Structural Engineers Association of San Diego

Organizations Recommending Denial:

1. North Park Main Street.

Attachment No. 9 summarizes these recommendations and provides copies of letters of support and opposition received prior to the issuance of this report.

Environmental Impact - This activity is exempt from CEQA pursuant to Section 15061(b)(3) of the State CEQA guidelines.

Fiscal Impact - The proposed 78 FTE budgeted positions (Attachment No. 7) would be fully cost recoverable from the proposed fee increase, resulting in revenues of \$12

million. The fees will cover increased costs, improve current service levels, and provide for the limited enhanced and optional services described above.

BACKGROUND

The City's development review and inspection services are operated without general fund subsidy as an Enterprise Fund. Development Service's customers, therefore, pay for the Department's operating costs similar to most businesses. The level of service the Department is able to provide is directly related to the fees charged. In addition, State law requires that the fees charged "shall not exceed the estimated reasonable cost of providing the service" (California Government Code Section 66014).

The Building Inspection Enterprise Fund¹ was created in 1985 (Attachment No. 5, Fund History). As of 1998, all development and building inspection-related activities except for fire plan check and inspection have now been included in the fund. In FY 2004, that service will be included in the Enterprise Fund if this proposal is approved.

As noted at the time of the Fiscal Year 2003 budget hearings, a comprehensive review of the Department's fees was planned to determine what fee changes were necessary to support development review and inspection services. This report contains fees based on the results of the fee study performed by the City's consultant firm, Maximus.

The Enterprise Fund annual expenditures for Fiscal Year 2003 is estimated to be \$44.9 million. The proposed fee changes will support a proposed \$56.9 million enterprise expenditure in Fiscal Year 2004 – a \$12.0 million increase compared to Fiscal Year 2003. The fees are proposed to support the following goals:

1. Meet Base Service Levels - Provide fees to support basic service levels for plan check and building inspection, to support services that meet state and local law mandates, and to fully recover Department operating costs. Customer service standards have been established since the inception of the Enterprise Fund (Attachment No. 6) and since 1999, performance is measured on a quarterly basis. These standards are important development review and building inspection schedules that can affect a customer's development costs many times more than the cost of the review and inspection process itself. Reduction in the Department's level of service can increase time-sensitive financing, lead to costly construction delays, or increased land carrying costs. Proposed fees support these specific review and inspection service levels expected by building owners and the industry. In addition, proposed fees support the appropriate staffing, resources, and training costs to protect the public health, safety, and welfare.
2. Offer Limited, Enhanced and Optional Services - Provide fees to support limited, enhanced, project management, plan review, and inspection services that offer customers seeking a higher level of service with options to meet those needs. The Department has offered expedite and express services for the past several years, but has been unable to offer it for all staff disciplines and service areas. Limitations due to restricted staffing

¹ Currently named the "Development Services Enterprise Fund."

levels and measures to control Department expenditures have constrained our ability to provide these services more broadly and consistently. The Department's capacity to provide these services in the past have been through staff working voluntary overtime and by impacting the schedules of other non-expedite/express projects. The proposed fees provide the Department with the ability to offer a wider range of services intended to allow customers to select those enhancements that can best improve the predictability and schedule of their project. They will also allow the Department to reduce reliance on overtime and minimize impacts on other project reviews and inspections.

The last fee analysis for the Department was performed in FY 2001 and resulted in a 5% fee increase and a reduction in the Department's fund balance from a high of \$3.7 million in FY 1999 down to an estimated negative \$1.1 million fund balance for FY 2003. The Department has provided resources to implement computer system improvements such as geographic information system mapping, project tracking, and an interactive voice response inspection scheduling system. In addition, the Department added the project management service during this time period to provide for a single point of customer contact, to manage conflict resolution, and to facilitate projects through the project review process. This service was added without increases to the project fee schedule.

If the fee proposal is approved by City Council, the effective date for new fees will be no sooner than sixty days after City Council action, according to California State Code. The Department presented the fee proposal to the Committee on Land Use and Housing (LU&H) and their discussion and recommendations are described below.

LU&H HEARING DISCUSSION

LU&H heard the department's fee proposal on March 12, 2003. Testimony and Committee discussion primarily focused on concerns with how the Department was responding to issues raised by small business representatives and on how the Department would better measure performance to insure that the proposed fees and additional positions would improve service.

Small Business Issues

Speakers stated the Department's services were not responsive to the needs of small businesses. Employee training, consistency in decision making, complexity of the review and regulatory process, customer service, and the structure of the Department were all raised and discussed as areas that the department needed to focus on.

Staff agrees that small business service improvements should be made and has begun efforts to do this. After the LU&H meeting, staff met with the Small Business Advisory Board (SBAB) and the TAC to develop a plan to address the service improvements needed including restructuring services for small business customers and homeowners. A Committee of the SBAB headed by Mr. Richard Sims will assist the Department in analyzing issues and advising staff on proposed improvements to services for small business including the Department's performance measures. The Board also identified Mr. Sims and the Business Improvement District Council President, Scott Kessler as volunteers who will be joining the TAC this month. That Committee

will report quarterly to LU&H on service improvement progress and performance Department-wide. In addition, their suggestions for regulatory reform or exemptions will be shared with the Land Use and Housing Committee. It is proposed that the Department's performance measures will be analyzed and modified this summer, as recommended after review by the TAC. Service improvements will be tracked and reported by the Department to LU&H. Finally, a Deputy Director has been assigned to provide immediate personalized assistance to small business early in the permit process while we analyze other long-term changes that need to be made. The Department will provide a recommendation of how outreach to the community through the neighborhood service centers can be increased including services by appointment for small businesses through this process.

Performance Measures

During the LU&H hearing, speakers in favor of the fee proposal identified the need to insure performance is regularly measured and reported to show whether the new fees do result in quantifiable improvement. Since 1997, the department has been monitoring more than 100 specific areas of performance on a quarterly basis. LU&H felt that the Department needed to work closely with key stakeholder groups to evaluate its performance measures and change them to those that measured the service areas most important to Department customers. Staff agrees with their recommendation and has begun to work with interest groups to discuss changes to the Department's current performance measures. The results will be presented to the Land Use and Housing Committee this summer.

LU&H Committee Recommendation

After considering the public testimony and Committee deliberation, LU&H voted 3-1 to recommend that City Council: 1) approve the proposed fees as outlined in the City Manager's report, without approving plans for the proposed building until additional uses for the money are considered including using funds to keep community service centers open; 2) direct the Department to restructure to provide accountability and enhanced services to small business and individual homeowners; and 3) direct the Department to work with the Technical Advisory Committee (TAC), Small Business Advisory Board (SBAB), the Building Industry Association (BIA) and other interested stakeholder groups to develop specific performance standards to help improve accountability and customer service.

The City Manager recommends the adoption of Land Use and Housing Committee recommendations 2 and 3 with this action. Following is a discussion of Land Use and Housing Committee's recommendation #1.

After the Land Use and Housing Committee Meeting, the Department reviewed the budget requirements for FY 2003 and FY 2004 and identified additional cost requirements due to salary, fringe and retirement contributions. As a result, staff's recommendation is to withdraw the request for the purchase of a building. Instead, staff proposes to fund the increased cost for salary, fringe and retirement contributions in FY 2004 (and beyond) by budgeting a smaller amount for the lease of office space. Specifically, staff proposes to present an option for City Council consideration this summer to lease building space from the General Fund at the City

Concourse downtown. Another option to lease space elsewhere in the community (that is co-located with a community service center) will also be presented for City Council consideration.

Following is discussion of the Department fee proposal.

DISCUSSION

Development Services has endeavored to manage its workload within the means provided by the revenues generated from the last fee adoption in 2001. Despite these efforts, service levels are beginning to decline due to staffing cuts that are necessary to balance revenues and expenditures as labor costs and retirement contribution amounts have increased. Workload has also increased during this time due to new regulations (storm water, new building codes and disabled access) and increased construction activity. Following is a description of the Department's current financial condition, adjustments the Department has made to reduce costs and to operate more efficiently, and a description of the proposed fees to enhance the level of service to meet customer requests.

Current Financial Condition

Since the Fiscal Year 2001 fee adjustment, the Department's work load, as represented by the value of construction (valuation), has increased from \$ 1.87 billion in FY 2001 to an estimated \$2.01 billion in FY 2003. Budgeted staffing in the enterprise fund also increased slightly during this period, going from 431 positions in FY 2001 to 439 proposed in FY 2003. Actual filled positions, however, have been reduced during this same period, going from 456 FTE's to 436 FTE's to control Department expenses. This is a staff reduction of 5%. (This includes positions hired in FY 2003 for the new storm water program.) During the same period, the Department's expenses have grown from \$41.4 million to an estimated \$44.9 million, an increase of 8.5%. The Department has been able to meet 91% of its key performance measures during this time, despite this increase in expense and reduction in filled positions to perform the work. The customer service satisfaction survey results have increased from 74% last year (satisfied or better) to 81% during this year. Overall labor costs, including the increase in retirement contributions caused by the decline in the stock market, have increased by 16.3% (\$5.1 million)², in this same timeframe (FY 01-03). The Department has controlled overall expenses, by not filling positions that have become vacant, by drawing down the Department's fee stabilization reserves, and by implementing various cost controls and efficiency measures.

The Department projected a zero fund balance for the end of FY 2003 in the March report to LU&H. In April, more current figures for salary, fringe and retirement contributions became available. This \$1.3 million in additional personnel expenses in FY 2003 will significantly impact the Enterprise Fund balance that is now projected to be a negative \$1.1 million for FY 2003. Further, the increased cost to the Department's Enterprise Fund for FY 2004 will be \$2.1 million. In order to compensate for additional costs, the Department will defer the plan for purchasing a building and instead pursue office space leasing options. Without the proposed fee

² This figure has been recalculated, since the March Land Use and Housing Report, to include retirement contribution increases.

increase in FY 2004 to support this expense, staff vacancies through attrition will need to be held open to balance the fund through a hiring freeze and other measures.

Cost Controls and Efficiency Measures

Annual valuation reviewed per plan checker has increased from \$46.8 million in FY 2001 to \$51.5 million in FY 2003. Annual inspections performed per inspector have grown during this same period from 3,163 to 3,579. Projects managed per project manager has also increased from 16 in FY 2001 to 31 in FY 2003. Each of these measures represent a substantial increase in output per staff to manage the Department's workload within constrained revenues.

In addition to staff performance, operational improvements were implemented resulting in overall savings to the Department that helped to control increased costs (Attachment No. 8). Many of these changes resulted from ideas and input from our LU&H Technical Advisory Committee (TAC), the Zero Based Management Review (ZBMR) process, and Select Committee. A key change was the consolidation of eight departments into one Enterprise Fund department. This has saved the general fund \$2.1 million annually since 1996. Furthermore, numerous automation improvements have also helped make the Department more efficient and saved customers' money. Improvements include a new project tracking system that tracks and helps manage all projects, a geographic information system (Cabrillo) with over 100 layers of information, and web enabled services such as plan finder and E-permitting (currently issuing 2,700 permits annually). In addition to offering better and smarter services, these new automated systems have allowed us to eliminate old "legacy" systems resulting in annual savings of \$196,000.

Other customer improvements include permit by Fax and mail (3,482 per year average), Guaranteed Second Opinion program, and the engineering self-certification program (30 projects annually) have further helped the Department to control costs and save customers time and money. All of these improvements and efficiencies, however, will not allow the Department to continue to meet service demands, maintain quality standards, and satisfy customer needs in the future without changes to review and building inspection fees.

Fee Proposal

Department workload and operating costs were reviewed by a fee consulting firm, Maximus, to determine the Department's level of cost-recoverability. In order to develop a fee proposal, the consultant and the Department did extensive analysis of Department performance data, operating costs, workload, and staffing to develop a fee proposal that would meet performance standards, reflect the cost of that service, and provide optional services for the customer. Based upon this analysis, both fee increases and decreases are being proposed.

For building permits, the valuation model is being changed to a square footage model using estimated hourly charges and staff time spent on the project. This square footage and hourly estimate of the time to provide plan check and inspection services is considered a more accurate methodology to develop proposed fees. Other development and construction permits and approvals have been revised based on an estimate of the review and inspection times for each

permit type and based on actual staff labor costs. Approvals that previously were charged hourly for review services against deposit accounts will continue to be charged on an hourly basis. The initial deposit account amounts will be increased and a requirement of an additional deposit with each new review cycle has been added. This change has been necessitated by increased costs for review and by a need to significantly decrease the Department's deposit account liability reserve (currently \$1.4 million). The hourly cost charged to these accounts will also increase by 11% with this fee proposal to cover information technology improvement costs, additional retirement costs, and to provide for increased office space needs. In addition, 14 flat fee based approvals are being changed to deposit accounts to provide for full cost recovery. This was necessary because the review services within these 14 approval types varied significantly due to project complexity, public involvement, environmental review, and the required public decision process.

Following is an overview of the base fee proposal, the fees for enhanced and optional services, and the prototypical project costs based on the revised fees.

Base Services:

The primary focus of the base proposal is to charge fees that will allow the Department to provide project review and inspection services that meet our established standards (Attachment No. 6) and reduce staff overtime. The proposed changes also include enhancements for information technology systems fire plan check and inspection services, future fee adjustments to match increased labor costs, and the addition of appropriate budgeted staff positions to meet service demands including leased building space.

Enhanced and Optional Services:

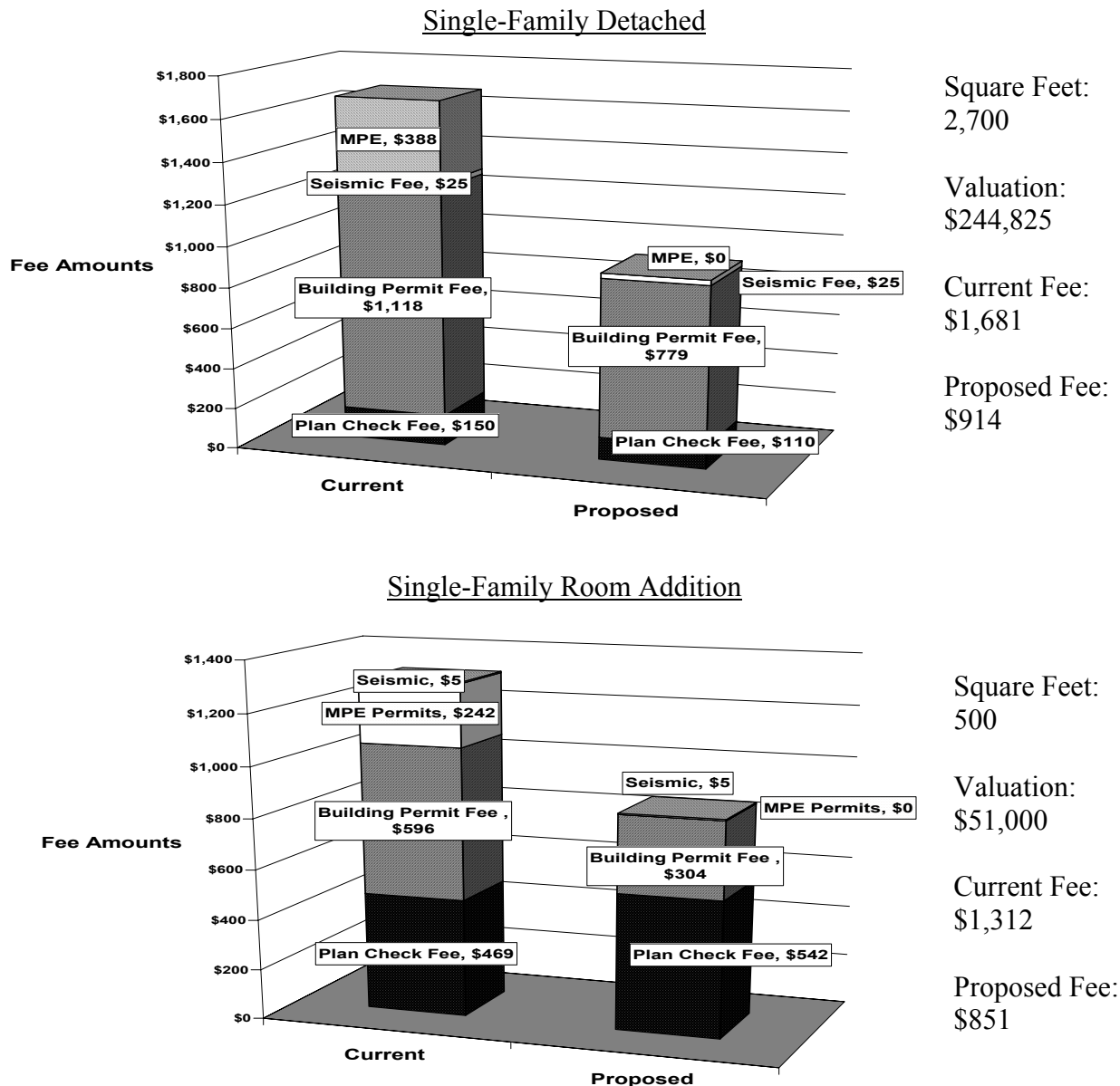
The enhanced and optional services that are included in the proposed fees are beyond what the Department currently offers. Enhanced services would be the addition of staff to perform long term permit monitoring. With this addition, monitoring of permit conditions, storm water best management practices, mitigation completion and maintenance and other ongoing conditions of a project after construction would be provided.

Optional services proposed with the revised fees provide additional tools that can be voluntarily chosen by a customer if they want faster processing, guaranteed next day inspection, or increased review schedule predictability for certain types of projects. One of the optional services would be an improved express plan check service. This service would consist of a managed program for reduced plan check times offered through staff overtime or outside contract. The program would be a limited service offered only until the review capacity has been reached.

The Affordable/Infill Housing and Energy Efficiency Expedite Program is the other optional service included in the proposed fees. This service would offer a specialized staff team and a reduced review process timeline on a limited basis. The additional staff is needed to meet these reduced timelines. Similar to the express service above, the capacity of the program would be closely monitored to insure the set timelines are being met. A priority list approved by Council would be used to decide the projects that would be offered this service if staff capacity is being challenged.

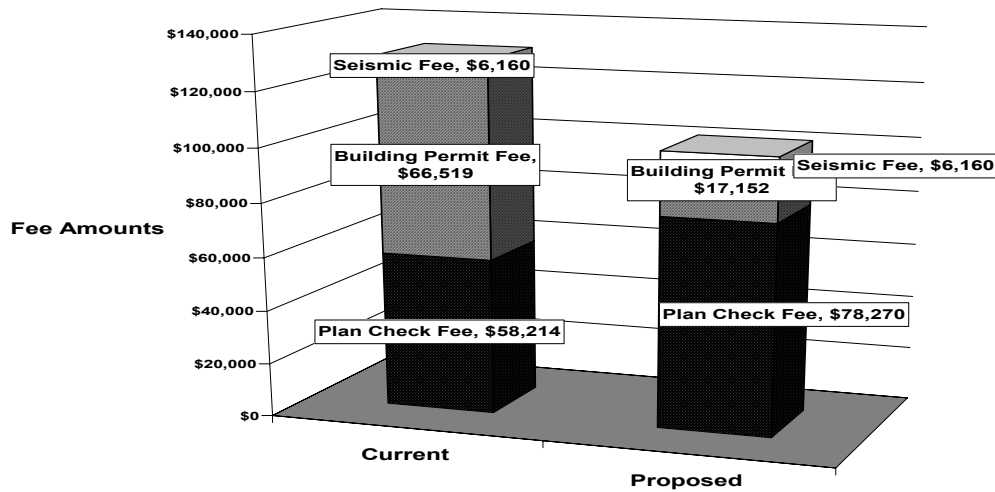
Prototype Project Costs:

The following are typical examples of projects that would be affected by the fee proposal.³ Because the proposed fees are based on a square foot model and estimates of hourly review time, some overall fees have decreased while others have gone up. In addition, the proportion of fees attributed to plan check services versus inspection services have also changed to reflect the estimates for each service.



³ The prototype projects utilized to illustrate costs in this report are based upon the models used in an industry survey of fees, reference the "San Diego County Building Industry Association (BIA) 2002-2003 Fee Survey."

Residential Multifamily Apartment



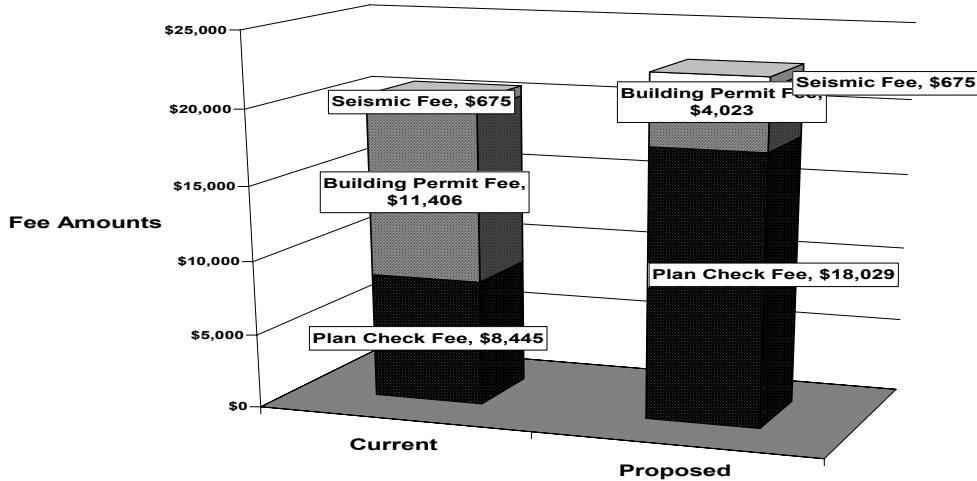
Square Feet:
366,626

Valuation:
\$29,331,000

Current Fee:
\$130,893

Proposed Fee:
\$101,582

Commercial Office Building



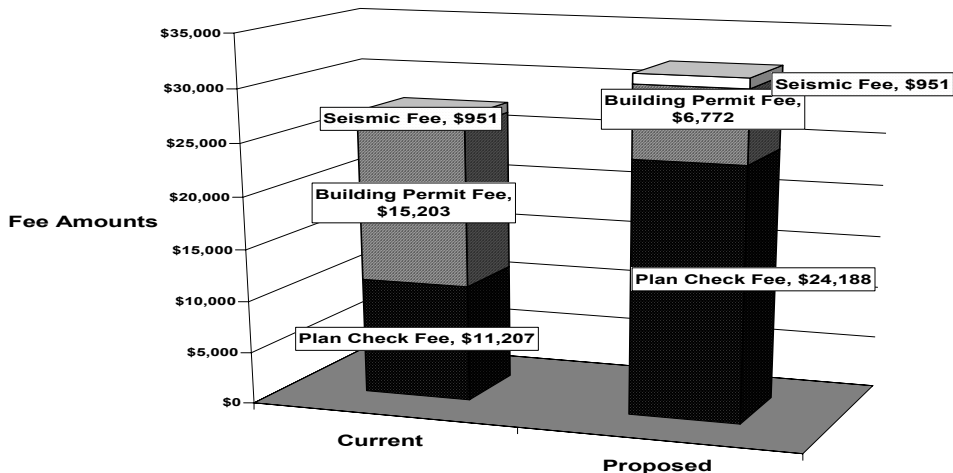
Square Feet:
50,000

Valuation:
\$3,215,000

Current Fee:
\$20,526

Proposed Fee:
\$22,727

Retail Building

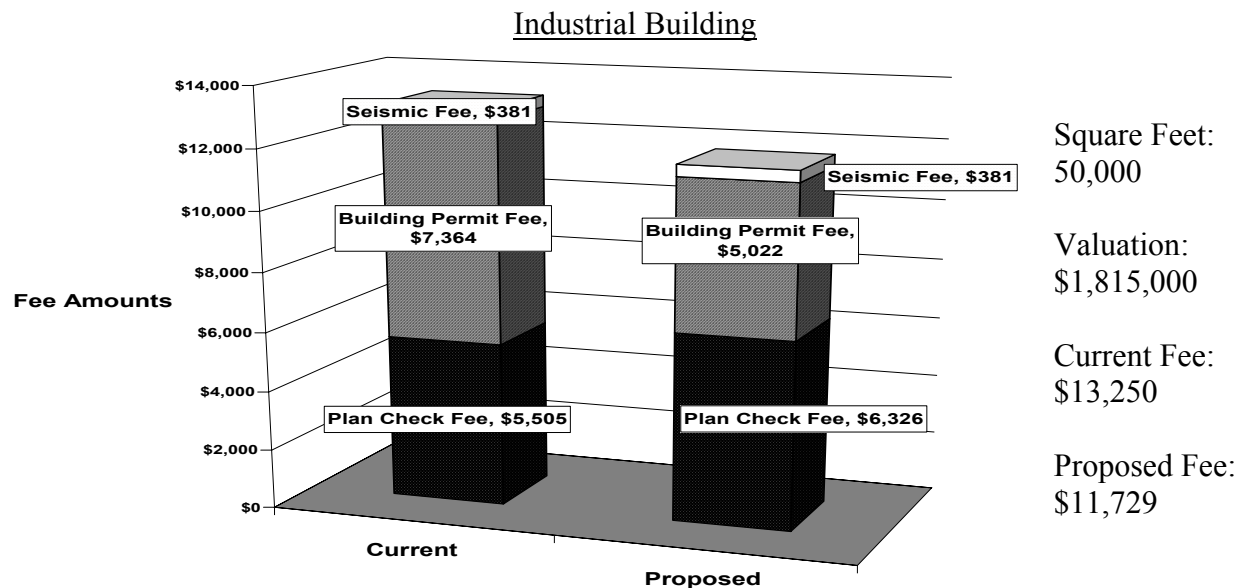


Square Feet:
100,000

Valuation:
\$4,530,000

Current Fee:
\$27,361

Proposed Fee:
\$31,911



CONCLUSION

In conclusion, the last fee study and approved increase for these fees was completed in Fiscal Year 2001. Since that time, the Department's annual labor costs have increased by 16.3%. Workload has remained constant or increased for the various building and land development projects reviewed and inspected by the Department. The Department has, however, still been able to meet most of its performance measures during this time with a staff decrease of 5%, representing a substantial productivity improvement.

The fees proposed are needed to maintain the quality of review, restore the Department's performance and service levels, and enhance the fiscal health of the enterprise fund. Alternatively, the Council may choose not to adopt some or all of the proposed fees or to direct that changes to regulatory requirements be made to provide additional staff capacity. If a no change alternative is adopted, the Department will need to cut its services, reduce its existing workforce, and control expenditures accordingly as a result. Attachment No.4 shows the reductions and impacts to customer services that would result under this alternative. In developing this fee proposal, customers and contractors have indicated that time is of essence in the construction process. The recommended proposal will allow Development Services to meet customers' service level needs and expectations and meet the community's expectations for quality review and improved performance.

A copy of the list of interested organizations and individuals that were notified of the proposed fee change is attached (Attachment No. 3). The recommendations received from those listed or unlisted organizations are also attached (Attachment No. 9).

ALTERNATIVES

1. Modify the fee proposal by adopting some but not all of the items. Adopt the base service fee proposal to maintain basic service levels (37 FTE). Do not adopt the fees to support enhanced services (14 FTE for long term permit monitoring) and optional services (27 FTE

for express services and the Affordable/Infill Housing and Energy Efficient Expedite Program). There has, however, been significant customer and community support for these services.

2. Do not adopt the proposed fees. Reductions by attrition in FY 2004 and in budgeted positions in FY 2005 and FY 2006, expenditures, and service levels would occur under this alternative, causing delays in the plan review and construction process. Attachment 4 is a list of related service level reductions for 2004.
3. Modify the fees.

Respectfully submitted,

Tina P. Christiansen, A.I.A.
Development Services Director

Approved: P. Lamont Ewell
Assistant City Manager

TPC/KGB

Attachments:

1. [Proposed Fee Schedule](#)
2. [Fee Change Examples](#)
3. [Organizations Notified](#)
4. [Impacts of No Fee Change](#)
5. [Fund History](#)
6. [Project Review and Inspection Goals](#)
7. [Budget Adjustments](#)
8. [Cost Controls and Efficiency Measures](#)
9. [Other Recommendations](#)